

STONEBRIDGE ECONOMIC OUTLOOK UPDATE

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Economic Impact of President Trump This Time Around

The return of Donald Trump to the White House for a non-consecutive second term and the potential Republican sweep of Congress could have considerable implications for the U.S. economy as soon as next year, depending on which combination of policies are pursued and how each is structured. I have frequently noted in the past that the economy has more impact on who is president than the president has on the economy. However, some of the more controversial policy and program changes proposed by Trump during his campaign could substantially impact the U.S. economy, depending on the size and scope of the changes. In the meantime, any attempt to quantify the economic impact would be very preliminary and require extensive assumptions about such changes. At the moment, identifying themes seems to be a more doable approach.

One theme of the Trump presidency is a more protectionist trade environment, which is suggested by his plan to rely more on import tariffs to generate revenue to fund the federal government. Tariffs tend to be a distortive way to raise revenue, especially if they provoke our trade partners to retaliate. His first term was marked by trade disputes, particularly with China, which saw tariffs imposed on a range of goods. Such a protectionist stance most likely will lead to substantially higher consumer prices over time, especially if the tariffs are universal in nature. That said, one benefit of the Trump tariffs in his first term was the leverage they provided the Trump administration in negotiating new trade agreements with China, Mexico, and Canada.

Significant shifts in the regulatory landscape are likely to be another theme under a Trump presidency. While these shifts might spur short-term economic growth by reducing compliance costs for businesses, it could also lead to longer-term risks for consumers (buyer beware). That said, not all regulation is as effective or as necessary as initially planned, suggesting room for a major review rather than wholesale elimination of regulations.

A third theme may be tax reform. President-elect Trump is expected to push for lower income taxes, as indicated by the various tax policy ideas floated during his campaign. They included the extension of the 2017 Tax Cuts and Jobs Act (TCJA), reinstating the deduction for state and local taxes, reducing the corporate tax rate for domestic production, and exempting various types of income from the income tax. The impact of these proposals will vary depending on which combination of policies are pursued. At first blush, lowering income taxes without a corresponding decline in federal spending could substantially boost the federal debt outstanding over time, which most likely will get the attention of bond investors at some point, if it has not already. However, President-elect Trump also floated the idea of a federal sales tax during his campaign, which I assume would supplement the federal income tax and not replace it. The implication is that the complete Trump tax plan would shift the burden of federal taxes more so than reduce them.

During the campaign, Donald Trump even suggested that the President should “have a say” about monetary policy and interest rates. Later he softened his comment on the issue by saying that the President’s view on rates should be heard. However, the President’s views on monetary policy are already heard, generally through regular meetings between the Secretary of the Treasury and the Chair of the Federal Reserve Board. Trump’s comment that a President should

have more influence over interest rates suggests a preference for the Trump administration to have an official role in setting interest rates and monetary policy beyond the impact the President already has by making appointments to the Federal Reserve Board when they become available. Exactly what President Trump might do to expand his influence over interest rates is unclear. Nevertheless, whatever it is would most likely require changing the law governing the structure of the Federal Reserve System and how monetary policy is implemented.

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